

## OIL AND GAS LEASE SALE APPROVAL

The Department of Natural Resources and Conservation held an oil and gas lease sale on June 10, 2008, in the Auditorium at the Department of Transportation building. Four Teton County tracts were deferred prior to the sale. A total of 45 tracts were offered for lease. Forty five tracts were leased for a total of \$971,508.80. The 45 tracts that were sold covered a total of 21,393.88 acres. The average bid per acre was \$45.41.

The high competitive bid for the June 10th lease sale was \$125.00 per acre for Tract 38 in Sheridan County. The largest total bid was \$80,000.00, also for Tract 38.

The Director requests Land Board approval to issue the leases from the June 10, 2008 sale.

### **Grants:**

Common Schools

The following described lands were offered for oil and gas leasing through oral competitive bidding in the Department of Transportation auditorium, 2701 Prospect Avenue, Helena, Montana, 9:00 am, June 10, 2008

Tract	Stip	Twp	Rge	Sec	Description	Acres	Bid \$/Acr	Total Price	Lessee
<b>Chouteau</b>									
1	1, 2, 3, 4, 5, 6, 7, 8, 10, 11	24.N	8.E	10	NE4SW4, NW4SE4, S2S2, Teton Riverbed and related acreage	248.00	\$6.25	\$1,550.00	MEGAWEST ENERGY MONTANA CORP.
2	1, 2, 3, 4, 5, 6, 8	24.N	8.E	11	SW4	160.00	\$1.75	\$280.00	MEGAWEST ENERGY MONTANA CORP.
3	1, 2, 3, 4, 5, 6, 8	24.N	8.E	15	NW4, N2NE4, SW4NE4	280.00	\$1.75	\$490.00	MEGAWEST ENERGY MONTANA CORP.
<b>Dawson</b>									
4	1, 2, 3, 4, 5, 6	21.N	55.E	16	All	640.00	\$15.25	\$9,760.00	BURNETT OIL CO., INC.
5	1, 2, 3, 4, 5, 6, 10	21.N	55.E	25	W2, W2NE4, SE4NE4, SE4	600.00	\$15.25	\$9,150.00	BURNETT OIL CO., INC.
6	1, 2, 3, 4, 5, 6, 8	21.N	55.E	34	SE4NW4, SW4NE4, E2NE4, S2	480.00	\$12.25	\$5,880.00	BURNETT OIL CO., INC.
7	1, 2, 3, 4, 5, 6	21.N	55.E	36	All	640.00	\$14.25	\$9,120.00	BURNETT OIL CO., INC.
<b>Pondera</b>									
8	1, 2, 3, 4, 5, 6, 13	28.N	6.W	36	All	640.00	\$65.25	\$41,760.00	MACUM ENERGY, INC.
<b>Richland</b>									
9	1, 2, 3, 4, 5, 6	21.N	56.E	16	All	640.00	\$43.50	\$27,840.00	PETRO-HUNT, LLC
10	1, 2, 3, 4, 5, 6, 7	21.N	56.E	29	All	640.00	\$45.00	\$28,800.00	PETRO-HUNT, LLC
11	1, 2, 3, 4, 5, 6, 10	21.N	56.E	31	All	640.00	\$48.00	\$30,720.00	PETRO-HUNT, LLC
12	1, 2, 3, 4, 5, 6	21.N	57.E	7	Lots 1, 2, 3, 4, E2W2, E2	635.80	\$47.00	\$29,882.60	PETRO-HUNT, LLC
13	1, 2, 3, 4, 5, 6	21.N	57.E	16	All	640.00	\$52.00	\$33,280.00	PETRO-HUNT, LLC
14	1, 2, 3, 4, 5, 6, 7, 10	21.N	57.E	25	All	640.00	\$53.00	\$33,920.00	PETRO-HUNT, LLC
15	1, 2, 3, 4, 5, 6	21.N	57.E	28	NE4	160.00	\$56.00	\$8,960.00	PETRO-HUNT, LLC
16	1, 2, 3, 4, 5, 6	21.N	57.E	30	Lots 1, 2, 3, 4, E2W2, SE4	476.80	\$51.00	\$24,316.80	PETRO-HUNT, LLC
17	1, 2, 3, 4, 5, 6	21.N	57.E	36	All	640.00	\$56.00	\$35,840.00	PETRO-HUNT, LLC
18	1, 2, 3, 4, 5, 6, 8	22.N	55.E	16	All	640.00	\$55.00	\$35,200.00	OSE MONTANA CORP.
19	1, 2, 3, 4, 5, 6	22.N	55.E	26	W2	320.00	\$40.00	\$12,800.00	OSE MONTANA CORP.
20	1, 2, 3, 4, 5, 6	22.N	55.E	36	All	640.00	\$36.00	\$23,040.00	OSE MONTANA CORP.
21	1, 2, 3, 4, 5, 6	22.N	57.E	16	All	640.00	\$93.00	\$59,520.00	TOMMY C. CRAIGHEAD
<b>Roosevelt</b>									
22	1, 2, 3, 4, 5, 6, 11	26.N	58.E	2	Missouri Riverbed and related acreage	68.00	\$101.00	\$6,868.00	DON HEIMMER
23	1, 2, 3, 4, 5, 6	27.N	57.E	4	All	640.00	\$60.00	\$38,400.00	RETAMCO OPERATING, INC.
24	1, 2, 3, 4, 5, 6, 7	27.N	57.E	7	SW4NE4, W2SE4, NE4SW4	160.00	\$115.25	\$18,440.00	ST. MARY LAND & EXPLORATION COMPANY
25	1, 2, 3, 4, 5, 6	27.N	57.E	17	N2NW4, NW4NE4	120.00	\$115.25	\$13,830.00	ST. MARY LAND & EXPLORATION COMPANY
26	1, 2, 3, 4, 5, 6, 11	27.N	58.E	26	Missouri Riverbed and related acreage	224.00	\$40.00	\$8,960.00	RETAMCO OPERATING, INC.

Tract	Stip	Tw	Rge	Sec	Description	Acres	Bid \$/Acr	Total Price	Lessee
27	1, 2, 3, 4, 5, 6, 11	27.N	58.E	35	Missouri Riverbed and related acreage	332.00	\$38.00	\$12,616.00	RETAMCO OPERATING, INC.
28	1, 2, 3, 4, 5, 6, 10, 11	27.N	58.E	36	Lots 1, 2, 3, 4, N2NW4, SE4NW4, NE4, N2SE4, SW4SE4, Missouri Riverbed and related acreage	640.00	\$38.00	\$24,320.00	RETAMCO OPERATING, INC.
<b>Rosebud</b>									
29	1, 2, 3, 4, 5, 6	11.N	33.E	5	Lots 1, 2, 3, 4, S2N2, S2	640.40	\$86.00	\$55,074.40	RETAMCO OPERATING, INC.
30	1, 2, 3, 4, 5, 6, 7	11.N	33.E	9	All	640.00	\$85.50	\$54,720.00	RETAMCO OPERATING, INC.
<b>Sheridan</b>									
31	1, 2, 3, 4, 5, 6	32.N	59.E	16	Lots 1, 2, 3, 4, W2, from the surface to the base of the Charles formation	485.88	\$25.00	\$12,147.00	RIDGE PETROLEUM CORPORATION
32	1, 2, 3, 4, 5, 6	34.N	58.E	16	NW4, NW4NE4, S2NE4, S2	600.00	\$37.00	\$22,200.00	TOMMY C. CRAIGHEAD
33	1, 2, 3, 4, 5, 6	35.N	58.E	21	SE4	160.00	\$15.00	\$2,400.00	RETAMCO OPERATING, INC.
34	1, 2, 3, 4, 5, 6	35.N	58.E	28	NE4	160.00	\$15.50	\$2,480.00	RETAMCO OPERATING, INC.
35	1, 2, 3, 4, 5, 6	36.N	53.E	16	All, limited to the Bakken formation	640.00	\$1.50	\$960.00	MEADOWLARK SEARCH, INC.
36	1, 2, 3, 4, 5, 6	36.N	54.E	8	NE4	160.00	\$20.25	\$3,240.00	EMPIRE OIL COMPANY
37	1, 2, 3, 4, 5, 6	36.N	54.E	9	NW4	160.00	\$1.75	\$280.00	EMPIRE OIL COMPANY
38	1, 2, 3, 4, 5, 6	36.N	57.E	16	All	640.00	\$125.00	\$80,000.00	HOOVER & STACY, INC.
39	1, 2, 3, 4, 5, 6	36.N	57.E	36	All	640.00	\$48.00	\$30,720.00	RETAMCO OPERATING, INC.
40	1, 2, 3, 4, 5, 6, 8, 9	36.N	58.E	36	Lots 1 thru 12, NE4NW4, W2W2, and lakebeds within section	843.00	\$48.00	\$40,464.00	RETAMCO OPERATING, INC.
41	1, 2, 3, 4, 5, 6	37.N	52.E	36	All	640.00	\$15.50	\$9,920.00	OSE MONTANA CORP.
<b>Sweet Grass</b>									
42	1, 2, 3, 4, 5, 6, 7, 10, 12	1.S	15.E	16	All	640.00	\$100.00	\$64,000.00	PACER ENERGY LLC
<b>Teton</b>									
43	2, 3, 4, 5, 6, 15	26.N	8.W	4	Lots 1, 2, SE4NW4	0.00	\$0.00	\$0.00	TRACT DEFERRED
44	2, 3, 4, 5, 6, 15	26.N	8.W	5	Lot 2, S2NW4, SW4NE4	0.00	\$0.00	\$0.00	TRACT DEFERRED
45	1, 2, 3, 4, 5, 6, 14	26.N	8.W	16	Lots 1, 2, 4, 5, NW4, W2NE4, NW4SE4, N2SW4	0.00	\$0.00	\$0.00	TRACT DEFERRED
46	2, 3, 4, 5, 6, 15	27.N	8.W	33	SW4SE4	0.00	\$0.00	\$0.00	TRACT DEFERRED
<b>Toole</b>									
47	1, 2, 3, 4, 5, 6	35.N	1.E	35	W2E2, E2NW4, SE4SE4, NE4SW4	320.00	\$16.25	\$5,200.00	TARGE ENERGY EXPLORATION AND PRODUCTION, LLC
48	1, 2, 3, 4, 5, 6	33.N	2.W	36	All, below the base of the Kootenai formation	640.00	\$3.00	\$1,920.00	KEESUN CORP.
<b>Yellowstone</b>									
49	1, 2, 3, 4, 5, 6	4.N	26.E	26	E2W2	160.00	\$1.50	\$240.00	GILBERT G. DALLAS

Tract	Stip	Twp	Rge	Sec	Description	Acres	Bid \$/Acr	Total Price	Lessee
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### *Summary by Lessor*

<i>Dept of Natural Resources &amp; Conservation</i>	<i>21393.88</i>	<i>49</i>
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\* Part of all of tract is not state-owned surface

### **Oil and Gas Lease Sale Summary**

<b>Lease Sale Totals</b>	<b>Tracts</b>	49
	<b>Acres</b>	21,393.88
	<b>Total Bid Revenue</b>	\$971,508.80
	<b>Avg Bid Per Acre</b>	\$45.41

## Stipulations

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- 1 Lessee shall notify and obtain approval from the Department's Trust Land Management Division (TLMD) prior to constructing well pads, roads, power lines, and related facilities that may require surface disturbance on the tract. Lessee shall comply with any mitigation measures stipulated in TLMD's approval.
- 2 Prior to the drilling of any well, lessee shall send one copy of the well prognosis, including Form 22 "Application for Permit" to the Department's Trust Land Management Division (TLMD). After a well is drilled and completed, lessee shall send one copy of all logs run, Form 4A "Completion Report", and geologic report to TLMD. A copy of Form 2 "Sundry Notice and Report of Wells" or other appropriate Board of Oil and Gas Conservation form shall be sent to TLMD whenever any subsequent change in well status or operator is intended or has occurred. Lessee shall also notify and obtain approval from the TLMD prior to plugging a well on the lease premises.

Issuance of this lease in no way commits the Land Board to approval of coal bed methane production on this lease. Any coal bed methane extraction wells would require subsequent review and approval by the board.
- 3 The TLMD will complete an initial review for cultural resources and, where applicable, paleontological resources of the area intended for disturbance and may require a resources inventory. Based on the results of the inventory, the TLMD may restrict surface activity for the purpose of protecting significant resources located on the lease premises.
- 4 The lessee shall be responsible for controlling any noxious weeds introduced by lessee's activity on State-owned land and shall prevent or eradicate the spread of those noxious weeds onto land adjoining the lease premises.
- 5 The definitions of "oil" and "gas" provided in 82-1-111, MCA, do not apply to this lease for royalty calculation purposes.
- 6 If the State does not own the surface, the lessee must contact the owner of the surface in writing at least 30 days prior to any surface activity. A copy of the correspondence shall be sent to TLMD.
- 7 Due to unstable soil conditions on this tract and/or topography that is rough and/or steep, surface use may be restricted or denied. Seismic activity may be restricted to poltershots.
- 8 The lessee is responsible to pay for all damages, including penalties and charges assessed by the USDA-CFSA on CRP lands, as a result of drilling and production on the tract.
- 9 Any activity within 1/8 mile of the river, flood plain, or lake/reservoir on or adjacent to this tract must be approved in writing by the TLMD prior to commencement. No surface occupancy is allowed within the bed of the river, abandoned channels, the bed of the lake/reservoir, or on islands and accretions associated with the river or lake/reservoir.
- 10 Due to the floodplain/wetlands area(s), surface use may be restricted or denied.
- 11 This tract contains navigable riverbeds. No surface occupancy is allowed within the bed of the navigable river, abandoned channels, or on islands and accretions. In addition, upon completion of a successful well, where river title is disputed, the lessee will file an interpleader action under Rule 22, M.R.Civ.P. in the Montana District Court, or other court having jurisdiction, in which the leased lands are located for all acreage within the lease in which the title is disputed. The lessee shall name all potential royalty claimants as defendants.
- 12 A critical weed problem exists on this tract. Additional mitigation measures will be required to prevent further spread of noxious weeds. The Department may require such measures as power washing of vehicles, car pooling, timing restrictions for seismic, etc. to facilitate this prevention.

## Stipulations

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- 13 This tract has (an) existing well(s) and related facilities. The lessee has 45 days from the effective date of this lease to determine whether or not to assume responsibility from the former lessee for the well and any existing facilities. The lessee may not enter the well until a change of operator has been filed with, and approved by, the Board of Oil and Gas Conservation.
  - 14 No surface occupancy shall be allowed on this tract unless otherwise approved in writing by the Director of DNRC.
  - 15 This lease is located near the Rocky Mountain Front and includes areas that are environmentally sensitive. Therefore, except as otherwise provided below, the lessee shall not conduct any surface operations on the lease premises. If the lessee determines that surface operation on the lease premises may be required, the lessee shall submit a proposed Operating Plan or Amendment to an existing Operating Plan to the State Board of Land Commissioners describing in detail the proposed operations. No surface activities shall occur on the lease premises unless and until the Operating Plan or Amendment is approved by the Board. In determining whether to approve the proposed Operating Plan or Amendment, the following provisions shall apply:
    - 1) If the lessee proposes an activity that does not entail any significant surface disturbance, the Board may approve the same after completion of the appropriate environmental review in accordance with the Montana Environmental Policy Act (MEPA) and an opportunity for public comment on the proposed activity has been provided.
    - 2) Before the Board approves any proposed activity on the lease premises that entails a significant surface disturbance, an environmental impact statement (EIS) shall be completed in accordance with MEPA. The EIS shall analyze the potential impacts of alternative and future potential levels of oil and gas development and extraction on an ecosystem scale as the ecosystem is defined by the "Limits of Acceptable Change - Bob Marshall Wilderness Complex" adopted by the Montana Department of Fish, Wildlife and Parks in December 1991. The analysis shall consider all relevant information, which may include, but is not limited to, existing environmental reviews and management plans. Public involvement in the environmental review process shall be actively solicited by the preparer of the environmental review document and shall include, at minimum, adequately noticed public meetings in at least three communities including Great Falls and Helena.
    - 3) The proposed surface activity shall adhere to the "Interagency Rocky Mountain Front, Wildlife Monitoring/Evaluation Program, Management Guidelines for Selected Species" adopted by the Montana Department of Fish, Wildlife and Parks in September 1987, or any successor guidelines thereto.
    - 4) The Board may refuse to approve any proposed surface operations if it determines that they do not constitute the best use of trust resources or are not in the best interest of the State of Montana.
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